ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

Executive committee	
Mayor	Mrs Phindile Gladys Strydom
Deputy Mayor	Mr Mbuzeleni Cyril Mkhize
Speaker	Mr Mondli Almon Mkhize
Grading of local authority	**2**
Acting Chief Financial Officer	Mr D N Maphumulo
Accounting Officer	Mr M R Mkhatshwa
Registered office	Ntabamhlophe Sobabili Area Estcourt 3310
Postal address	P. O. Box 750 Estcourt 3310
Telephone number	036 353 0625/81/91/93
Fax number	036 353 6661
Auditor	Auditor General South Africa
Bankers	ABSA - Newcastle
Attorneys	Shepstone & Wylie
Municipal Demarcation Code	KZ236
Councillors	Cllr Thokozani Paulos Dubazane Cllr Vincent Phelelani Gumbi (Executive committee) Cllr Sphiwayinkosi Welfare Khumalo Cllr Yvonne Nonsikelelo Mazibuko Cllr Manase Doreen Mazibuko Cllr Bhekuyise Donald Mazibuko Cllr Gcinile Mbhele Cllr Thembinkosi Elliot Mchunu Cllr Lindani Maxwell Mlaba (Executive committee) Cllr Vukani Clement Mlangeni Cllr Willy Gijima Mlotshwa Cllr Margaret Nonhlanhla Mthembu Cllr Alfred Sandile Ndlovu Cllr Eugine Simon Ndumo Cllr Siphamandla Jeoffry Nhlabathi Cllr Thembelihle Yvonne Nqubuka (Executive committee) Cllr Patronella Thobile Shelembe Cllr Xolani Reginald Sithole Cllr Mandla Richard Zulu **Cllr** Siphiwe Jafta Sithole Cllr Thobelani Maxwell Mvelase Cllr Michael Brother Mabaso

Imbabazane Municipality
Annual Financial Statements for the year ended 30 June 2014

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act 56 of 2003, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in the report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretation, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clear defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviors are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out pages 4 to 42, which have been prepared on the going concern basis, were noted by the council on the 28 August 2014 and were signed on its behalf by:

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Mr. M R Mkhatshwa
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2014	2013
Assets			
Current assets			
Other receivables from exchange transactions	2	3 467 492	3 011 342
Vat receivable	3	1 370 009	190 461
Receivables from non-exchange transactions	4	8 725 416	4 796 521
Cash and cash equivalents	5	49 263 209	46 085 742
Non-current assets held for sale	7	138 000	-
		62 964 126	**54 084 066**
Non-current assets			
Investment property	6	1 556 965	1 626 258
Property, plant and equipment	7	100 668 386	82 783 936
Intangible assets	8	506 661	132 955
		102 732 012	**84 543 149**
Total Assets		**165 696 138**	**138 627 215**
Liabilities			
Current liabilities			
Finance lease obligations	9	164 033	208 889
Payables from exchange transactions	10	10 928 448	8 542 622
Unspent conditional grants and receipts	11	3 173 914	4 854 883
Provisions	12	870 166	781 886
Current portion of non-current provision	13	55 241	-
		15 191 803	**14 388 280**
Non-current liabilities			
Finance leases	9	-	164 122
Non-current provision	13	689 006	579 769
		689 006	**743 891**
Total Liabilities		**15 880 809**	**15 132 171**
Net Assets		**149 815 330**	**123 495 043**
Equity / Community Wealth			
Accumulated Surplus		149 815 330	123 495 043
TOTAL COMMUNITY WEALTH/EQUITY		**149 815 330**	**123 495 043**

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from Exchange transactions			
Licences and permits		200	600
Rental of facilities		58 965	110 724
Other income	14	356 960	2 514 881
Interest on investments	15	2 726 584	1 857 643
Gains on disposal of assets		-	30 500
Total revenue from Exchange transactions		**3 142 709**	**4 514 348**
Revenue from Non - exchange transactions			
Asset donated	7	2 370 845	-
Property rates	16	7 261 190	6 316 330
Government grants and subsidies	17	97 194 001	87 641 127
Traffic fines		29 700	5 009
Total revenue from Non - exchange transactions		**106 855 736**	**93 962 466**
Total revenue		**109 998 445**	**98 476 814**
Expenditure			
Employee related costs	18	17 775 101	18 713 119
Remuneration of Councilors	19	6 179 961	5 997 314
Adjustments to non-current provisions		164 478	105 751
Depreciation and amortization	20	6 902 601	4 431 471
Impairment loss	21	-	301 359
Finance costs	22	38 537	87 338
Repairs and maintenance		6 904 543	3 558 087
General expenditure	23	45 430 693	31 262 149
Contribution to Bad debt provision		282 244	29 507
Total expenditure		**83 678 159**	**64 486 094**
Surplus for the period		**26 320 286**	**33 990 720**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 1 July 2012	**90 026 389**	90 026 389
Provision for bad debt	(48 048)	(48 048)
Long Service awards	(474 018)	(474 018)
Restated Balance as at 1 July 2012	**89 504 323**	**89 504 323**
Surplus for the year	33 990 720	33 990 720
Balance at 1 July 2013	**123 495 043**	**123 495 043**
Surplus for the year	26 320 286	26 320 286
Balance at 30 June 2014	**149 815 329**	**149 815 329**

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Property rates		3 307 201	4 207 146
Grants receipts		97 194 001	82 122 000
Interest income		2 726 584	1 857 643
Other cash receipts		2 271 494	2 194 479
		105 499 280	90 381 268
Payments			
Employee related costs		23 955 062	24 710 433
Supplier and other payments		55 064 820	36 493 073
Finance costs		38 537	82 108
		79 058 418	61 285 614
Net cash flows from operating activities	25	**26 440 861**	**29 095 654**
Cash flows from investing activities			
Purchase of Property, plant and equipment		(22 474 849)	(24 729 374)
Proceeds from sale of Property, plant and equipment		-	30 500
Purchase of Intangible assets		(579 567)	(86 847)
Investments		-	10 000 000
Net cash flows from investing activities		**(23 054 416)**	**(14 785 721)**
Cash flows from financing activities			
Repayment of finance leases		(208 977)	(159 248)
Total cash flows from financing activities		**(208 977)**	**(159 248)**
Net increase/(decrease) in cash and cash equivalents		**3 177 468**	**14 150 685**
Cash and cash equivalents at the beginning of the year		46 085 742	31 935 057
Cash and cash equivalents at the end of the period		**49 263 210**	**46 085 742**

STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS

Figures in Rand

Description	2013/14							
	Original Budget	Budget Adjustments	Final Budget	Actual outcome	Variance (1) between Original and Final Budget	Note on variances (1)	Variance (2) between Final Budget and Actual	Note on variances (2)
Financial Performance								
Property rates	7 263 264	-	7 263 264	7 261 190	-	Adjustment Budget	(2 074)	Adjustment Budget
Rental of facilities	163 080	-	163 080	58 965	-	approved in 3rd	(104 115)	approved in 3rd
Interest earned - external investments	1 170 000	680 000	1 850 000	2 726 584	680 000	quarter	876 584	quarter
Government grants and subsidies	73 438 000	-188 000	73 250 000	75 408 263	-188 000		2 158 263	
Other income	4 387 652	6 855 816	11 243 468	2 757 705	6 855 816		(8 485 763)	
Total Revenue (excluding capital transfers and contributions)	**86 421 996**	**7 347 816**	**93 769 812**	**88 212 706**	**7 347 816**		**(5 557 106)**	
Employee Related Costs	27 081 838	-5 627 380	21 454 458	17 775 101	-5 627 380	Adjustment Budget	(3 679 357)	Adjustment Budget
Remuneration of Councillors	6 338 319	62 132	6 400 452	6 179 961	62 132	approved in 3rd	(220 491)	approved in 3rd
Dept impairment	200 000	2 500 000	2 700 000	282 244	2 500 000	quarter	(2 417 756)	quarter
Depreciation and asset impairment	6 531 535	-270 000	6 261 535	6 902 601	-270 000		641 067	
Finance charges	270 100	-170 000	100 100	38 537	-170 000		(61 563)	
Other Expenditure	41 554 735	10 962 047	52 516 782	52 499 715	10 962 047		(17 067)	
Total Expenditure	**81 976 527**	**7 456 799**	**89 433 326**	83 678 159	**7 456 799**		(5 755 167)	
Surplus	**4 445 469**	**(108 983)**	**4 336 486**	**4 534 547**	**(108 983)**		**198 061**	
Transfers recognised - capital	**36 523 000**	-15 000 000	21 523 000	21 785 738	-15 000 000	Adjustment Budget	262 738	Adjustment Budget
Contributions recognised - capital and contributed assets	-	-	-		-	approved in 3rd	-	approved in 3rd
					-	quarter	-	quarter
Surplus after capital transfers & contributions	**40 968 469**	**-15 108 983**	**25 859 486**	**26 320 286**	**-15 108 983**		**460 799**	
Capital Expenditure & funds sources								
Capital Expenditure	39 443 000	-13 858 542	25 584 458	25 229 460	-13 858 542		(354 998)	
			-		-	-	-	
Transfers recognised - capital	21 292 000	230 600	21 522 600	21 785 738	230 600	Adjustment Budget	263 138	Adjustment Budget
Other	-		-		-	approved in 3rd	-	approved in 3rd
Public Contributions and Donations	-	-	-		-	quarter	-	quarter
Borrowing		-			-			
Internally generated funds	18 151 000	-14 089 142	4 061 858	3 443 722	-14 089 142		(618 136)	
					-			
Total Sources of capital funds	**39 443 000**	**(13 858 542)**	**25 584 458**	**25 229 460**		**-**	**(354 998)**	
Cash Flows								
Net cash from (used) operating	33 927 352	(12 486 714)	21 440 638	26 440 861	(12 486 714)	Adjustment Budget	5 000 223	Adjustment Budget
Net cash from (used) investing	(39 242 599)	13 534 000	(25 708 599)	(23 054 416)	13 534 000	approved in 3rd	2 654 183	approved in 3rd
Net cash from (used) financing	(270 000)	61 111	(208 889)	(208 977)	61 111	quarter	(88)	quarter
Cash/cash equivalents at the year begin:	9 785 394	36 300 742	46 086 136	46 085 742	36 300 742		(394)	
Cash/cash equivalents at the year end	**4 200 146**	**37 409 139**	**41 609 285**	**49 263 210**	37 409 139		**7 653 924**	

Accounting Policies

1. Presentation of Annual Financial Statements

The Annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These Annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand, which is the functional currency of the municipality, and are rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

In the absence of an issued and effective standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with "Directive 5.

These accounting policies are consistent with the previous period, unless specified otherwise.

1.1 Significant judgement and sources of estimation uncertainty

In preparing the Annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the Annual financial statements and related disclosures. Use of available information and the application judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual financial statements. Significant judgements include:

Trade receivables and other receivables

The municipality assesses its trade receivables and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating measurable decrease in the estimated future cash flows from a financial asset. Consumer debtors are expected to be realised within 12 months after the reporting date.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosures of these estimates of provisions are included in note 12 – Provisions.

1.2 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard	Interpretation:	Effective date:
GRAP 21	Impairment of non-cash-generating assets	01 April 2012
GRAP 23	Revenue from non-exchange transactions	01 April 2012
GRAP 24	Presentation of budget information in the financial statements	01 April 2012
GRAP 26	Impairment of cash-generating assets	01 April 2012
GRAP 103	Heritage assets	01 April 2012
GRAP 104	Financial instruments	01 April 2012

The adoption of the above GRAP standards did not have any significant impact on the operations of the municipality.

1.3 Standards, amendments to standards and interpretations issued but not yet effective

The municipality will apply all new standards issued by the date stipulated by the Minister of Finance. At year end, the municipality will still determining the extent to which the new standards will impact the accounting of the municipality. The municipality has elected to use these standards to inform the accounting policies that follow:

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

Standard	Interpretation:
GRAP 18	Segment reporting
GRAP 20	Related Party disclosures
GRAP 25	Employee benefits
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

The municipality has not applied the above accounting standards and interpretations that have been issued but are not yet effective for the current financial year but have applied their principles in forming the related accounting policies. The above standards are not expected to have a significant or material impact to the municipality.

1.4 Investment property

Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administration purposes, or
- sale in the ordinary course of operations

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Standard	Useful life
Property - buildings	30 years

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace a part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The cost of items property, plant and equipment under construction as of the reporting data is recognised as an asset if:

(a) it is probable that future economic benefits or service potential associated with the item(s) will follow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consist of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Infrastructure	
• Roads - Gravel	10 years
Community	
• Outdoor sports facilities	20 years
• Community halls	30 years
• Public convenience	30 years
Other property, plant and equipment	
• Furniture and fixtures	3 - 10 years
• Motor vehicles	5 years
• Office equipment	5 years
• IT equipment	3 years
• Emergency equipment	5 - 15 years
• Other assets	2 - 30 years

1.5 Property, plant and equipment (continued)

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchange, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	2 years

1.6 Intangible assets (continued)

Intangible assets are derecognised:

- on disposals; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories.

- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

- The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial instruments are initially recognised at fair value.

Transaction costs are included in the initial measurement if the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost insuring the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

1.7 Financial instruments (continued)

Payable from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in surplus or deficit.

1.7 Financial instruments (continued)

Impairment of financial assets

The municipality assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss of loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the assets shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance change and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment.

1.9 Impairment of cash-generating assets and non-cash generating assets

The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount). An asset recoverable amount (or recoverable service amount is the higher of the fair value less costs to sell, and the value-in-use of the asset).

An asset recoverable amount (or recoverable service amount) is the highest of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.In determining the recoverable amount (or recoverable service amount) of an asset the municipality evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset.

1.9 Impairment of cash-generating assets and non-cash generating assets (continued)

Where the asset is a non-cash generating asset the value in use is determined through one of the following approaches:

- Depreciated replacement cost approach – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach – Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach – the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the statement of financial performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of financial performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

1.10 Employee benefits

Short-term employee benefits

Short term employee benefits encompass all those benefits that become payable in short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses. Any unpaid amounts are accrued for as a liability at year end.

Short term employee benefits are recognised in the statement of financial performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Retirement benefits

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined contribution plans

The municipality contributes to the KZN Municipal Pension Fund, which is classified as a defined contribution plan. Contributions made towards the fund are recognised as an expense in the statement of financial performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

1.10 Employee benefits (continued)

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

1.12 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Measurement
Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting data. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

1.12 Revenue from exchange transactions (continued)

Investment revenue

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including charges and penalties interest

Revenue from rates, including collection charges and penalty interest, recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Charges to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that assets unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the assets for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.5 Commitments

Commitments are not recognised. Commitments are disclosed in the notes to the Annual financial statement. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

Accounting Policies

1.23 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The Annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period has been included in the Annual financial statements.

Changes between the approved budgets are made as a result of reallocations within the budget, as well as other unforeseen events and/or circumstances that were not accounted for when the approved budget was determined.

1.24 Going concern assumption

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.25 Events after reporting period

Events after reporting period date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

Those events which provide evidence of conditions that existed at the reporting date will be adjusted for accordingly.

Those events that are indicative of conditions that arose after the reporting date will not be adjusted for, however appropriate disclosure will be considered where necessary.

Those events that are indicative of conditions that arose after the reporting date will not be adjusted for, however appropriate disclosure will be considered where necessary.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
2. Other receivables from exchange transactions		
Other debtors	1 615 851	1 070 680
Uthkela District Municipality	1 940 662	1 940 662
	3 556 513	**3 011 342**
Less Provision for doubtful debts	(89 021)	-
	3 467 492	**3 011 342**

The balance of R1 940 662, is the amount due from Uthukela District municipality. Historically, the municipality's equitable share used to be paid to the District who in turn paid over the amount due to the Imbabazane Municipality. The balance is an outstanding amount which the Uthukela District Municipality failed to pay over.

3. VAT receivable		
VAT receivable	**1 370 009**	**190 461**
4. Consumer and other debtors from non-exchange transactions		
Property rates	8 968 892	4 874 075
Less Provision for doubtful debts - Property rates	(245 682)	(77 554)
	8 723 210	**4 796 521**
Traffic fines	27 300	-
Less Provision for doubtful debts	(25 094)	-
	2 206	-
	8 725 416	**4 796 521**

Executive committee suggested to management to implement some collection strategies with regards to prperty rates and traffic fines. Management is going to utilise WINDEED search tool to locate defaulting debtors.

Consumer debtors age analysis - Property rates		
Current	362 334	190 542
31 - 60 days	378 126	186 149
61 - 90 days	912 811	178 167
91 - 120 days	912 479	177 579
121 days and older	6 403 143	4 141 638
	8 968 892	**4 874 075**
5. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1 000	1 000
Bank balances	14 094 215	46 084 742
Short term investment	35 167 994	-
	49 263 209	**46 085 742**
The municipality had the following bank accounts:		
Account number/description		
ABSA Bank Limited Newcastle. Current account. Account number 4056119170	1 326 394	40 902 109
ABSA Bank Limited Newcastle. Current account. Account number 4060975423	12 767 821	5 182 633
	14 094 215	**46 084 742**
The municipality had the following short term investment:		
Account number/description		
Nedbank ltd -Call deposit Account number 037165014640	35 167 994	
	35 167 994	**-**

Notes to the Annual Financial Statements

Figures in Rand

6. Investment property

	2014			2013		
	Cost/ Valuation	**Accumulated depreciation**	**Carrying value**	**Cost/ Valuation**	**Accumulated depreciation**	**Carrying value**
Investment property	2 412 542	(855 576)	1 556 965	2 401 490	(775 232)	1 626 258

Reconciliation of investment property - 2014

	Opening Balance	**Additions**	**Depreciation**	**Closing Balance**
Investment property	1 626 258	11 051	(80 344)	1 556 965

Reconciliation of investment property - 2013

	Opening Balance		**Depreciation**	**Closing Balance**
Investment property	1 707 823	-	(81 565)	1 626 258

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The most recent valuation of the investment property was performed by MillsFithet Independent Valuers. The fixed date of valuation and the date of compilation as per the valuation report are 2 July 2012 and 19 April 2013 respectively. The market value as per valuation date 2 July 2012 was R 3 500 000.

7. Property, plant and equipment

	2014			2013		
	Cost	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	9 387 145	(2 551 905)	6 835 240	9 486 133	(2 337 988)	7 148 145
Plant and machinery	5 857 918	(2 549 322)	3 308 597	6 369 422	(2 405 793)	3 963 629
Furniture and fittings	1 729 551	(1 154 098)	575 452	1 543 130	(978 444)	564 686
Motor vehicles	2 712 411	(1 156 991)	1 555 420	2 835 978	(1 576 117)	1 259 861
Office equipment	2 983 707	(1 668 290)	1 315 417	2 471 062	(1 544 318)	926 744
Infrastructure	50 340 620	(16 126 384)	34 214 236	41 275 033	(11 873 143)	29 401 890
Community	12 061 962	(2 624 324)	9 437 638	9 691 117	(2 166 738)	7 524 379
Capital work in progress	43 002 028	-	43 002 028	31 390 391	-	31 390 391
Security assets	127 761	(31 899)	95 862	127 761	(13 444)	114 317
Finance lease assets - Office machines	1 005 812	(677 320)	328 492	1 005 812	(515 918)	489 894
	129 208 915	**(28 540 533)**	**100 668 382**	**106 195 839**	**(23 411 903)**	**82 783 936**

Notes to the Annual Financial Statements

Figures in Rand

Reconciliation of property, plant and equipment - 2014

	Opening Balance	Additions	Transfers/ disposals	Depreciation	Impairment loss	Closing Balance
Buildings	7 148 145	-	(98 988)	(213 917)	-	6 835 240
Plant and machinery	3 963 629	8 037	(519 541)	(143 529)	-	3 308 597
Furniture and fittings	564 686	189 061	(2 640)	(175 654)	-	575 452
Motor vehicles	1 259 861	630 320	(753 886)	419 126	-	1 555 420
Office equipment	926 744	763 355	(250 710)	(123 972)	-	1 315 417
Infrastructure	29 401 890	-	9 065 587	(4 253 241)	-	34 214 236
Community	7 524 379	2 370 845	-	(457 586)	-	9 437 638
Capital work in progress	31 390 391	20 677 224	(9 065 587)		-	43 002 028
Security assets	114 317		-	(18 455)	-	95 862
Finance lease assets - Office machines	489 894		-	(161 402)	-	328 492
	82 783 936	**24 638 842**	**(1 625 766)**	**(5 128 630)**	**-**	**100 668 382**

Depreciation for 2013/2014 is represented by:	
Current years depreciation (refer to note 20)	(6 616 396)
Depreciation on disposals	1 487 766
	(5 128 630)

During the year Proprty plant and Equipment was transferred to Non-current assets (NCAHFS) held for sale as follows:

	Costs	Accumulated Depreciation	NCAHFS
Vehicles - BMW X5	601 500	531 500	70 000
Plant & Equipment Barford Grader	463 541	403 541	60 000
Plant & Equipment Bell Tractor	56 000	48 000	8 000
	1 121 041	983 041	138 000

Asset donated during the year under review:
The Inkosi Nalane Mkhize Sportfield was donated to Council by the Department of Sport and Recreation on the 5 February 2014. The value being R 2, 370 , 845.14 and is included under the acquisition pertaining to Community assets.

Reconciliation of property, plant and equipment - 2013

	Opening Balance	Additions	Transfers	Depreciation	Impairment loss	Closing Balance
Buildings	7 559 862	-	-	(339 144)	(72 573)	7 148 145
Plant and machinery	4 467 588	35 852	-	(528 243)	(11 568)	3 963 629
Furniture and fittings	459 431	201 717	-	(96 115)	(347)	564 686
Motor vehicles	977 845	-	-	433 144	(151 128)	1 259 861
Office equipment	423 909	424 431	-	144 147	(65 743)	926 744
Infrastructure	23 572 001	-	9 393 845	(3 563 956)	-	29 401 890
Community	7 849 041	-	-	(324 662)	-	7 524 379
Capital work in progress	18 314 347	22 469 889	(9 393 845)	-	-	31 390 391
Security assets	-	127 761	-	(13 444)	-	114 317
Finance lease assets - Office machines	519 618	-	-	(29 724)	-	489 894
	64 143 642	**23 259 650**	**-**	**(4 317 997)**	**(301 359)**	**82 783 936**

During the previous year (2012/2013) a consultant was appointed to prepare a GRAP 17 compliant asset register for the Municipality. Assets were inspected to determine their physical state as well as their service potential in future years. This process resulted in a reassessment of the useful lives of assets which had been fully depreciated but remained in use, and theimpairment of assets which were damaged. Assets which were fully depreciated were assigned between 1 and 3 additional years of life, depending on when they became fully depreciated and the expected future use of the assets. The required adjustments were processed in the comparative year (2012/2013).

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

8. Intangible assets

	2014			2013		
	Cost	**Accumulated amortisation**	**Carrying value**	**Cost**	**Accumulated amortisation**	**Carrying value**
Computer software	828 800	(322 139)	506 661	249 233	(116 278)	132 955

Reconciliation of intangible assets - 2014

	Opening Balance	**Additions**	**Amortisation**	**Closing Balance**
Computer software	132 955	579 567	(205 861)	506 661

Reconciliation of intangible assets - 2013

	Opening Balance	**Additions**	**Amortisation**	**Closing Balance**
Computer software	78 017	86 847	(31 909)	132 955

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

9. Finance lease obligation

Minimum lease payments due		
- within one year	171 640	247 514
- in second to fifth year inclusive	-	171 640
	171 640	419 154
Less: future finance charges	(7 607)	(46 143)
Present value of minimum lease payments	**164 033**	**373 011**
Present value of minimum lease payments due		
- within one year	164 033	208 889
- in second to fifth year inclusive	-	164 122
	164 033	**373 011**
Non-current liabilities	-	164 122
Current liabilities	164 033	208 889
	164 033	**373 011**

It is municipality policy to lease certain property, plant and equipment under finance leases.

The average lease term is 3 years.

Interest rates are fixed at the contract date. All leases escalate at 10% p.a. and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over leased assets.

10. Payables from exchange transactions

Trade payables	9 785 051	7 181 259
Internal audit fees accrual	-	159 549
Leave pay accrual	1 143 397	1 201 814
	10 928 448	**8 542 622**

Trade and other payables

Trade and other payables are normally settled on 30 day terms.

Leave pay accrual

The leave pay accrual is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee. Leave pay accrual represents the number of leave days due to individual staff members at the end of the reporting period. The amount of the accrual is the best estimate expected to be required to settle the present obligation at the reporting date.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
11. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Finance management grant (FMG)	171 921	1 235 776
Municipal infrastructure grant (MIG)	2 885 219	3 335 957
Municipal systems improvement grant (MSIG)	116 775	279 562
Sports and recreation grant	-	3 588
	3 173 914	**4 854 883**
Movement during the year		
Balance unspent at the beginning of the year	4 854 883	10 374 011
Current year receipts	26 780 032	23 743 000
Conditions met transferred to revenue	(28 273 001)	(29 262 128)
	3 173 914	**4 854 883**
Financial management grant (FMG)		
Unspent at beginning of the year	1 235 776	564 528
Current year receipts	1 650 000	1 500 000
Conditions met transferred to revenue	(2 713 855)	(828 752)
Unspent at the end of the reporting period	**171 921**	**1 235 776**
EPWP grant		
Unspent at beginning of the year	-	-
Current year receipts	1 000 000	-
Conditions met transferred to revenue	(1 000 000)	-
Unspent at the end of the reporting period	**-**	**-**
MIG grant		
Unspent at beginning of the year	3 335 957	9 675 916
Current year receipts	21 523 000	20 963 000
Conditions met transferred to revenue	(21 785 738)	(21 096 959)
Unspent portion set off against equitable share	(188 000)	(6 206 000)
Unspent at the end of the reporting period	**2 885 219**	**3 335 957**
Municipal systems improvement grant (MSIG)		
Unspent at beginning of the year	279 562	133 567
Current year receipts	890 000	800 000
Conditions met transferred to revenue	(1 052 787)	(654 005)
Unspent at the end of the reporting period	**116 775**	**279 562**
IDP grant - Cogta		
Unspent at beginning of the year	-	-
Current year receipts	200 000	
Conditions met transferred to revenue	(200 000)	-
Unspent at the end of the reporting period	**-**	**-**
Cogta grant - HOD costs		
Unspent at beginning of the year	-	-
Current year receipts	725 032	
Conditions met transferred to revenue	(725 032)	-
Unspent at the end of the reporting period	**-**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
Sports and recreation grant		
Unspent at beginning of the year	3 588	-
Current year receipts	-	150 000
Conditions met transferred to revenue	(3 588)	(146 412)
Unspent at the end of the reporting period	**-**	**3 588**
Library grant		
Unspent at beginning of the year	-	-
Current year receipts	657 000	330 000
Conditions met transferred to revenue	(657 000)	(330 000)
Unspent at the end of the reporting period	**-**	**-**
Road saftey grant		
Unspent at beginning of the year	-	-
Current year receipts	135 000	-
Conditions met transferred to revenue	(135 000)	-
Unspent at the end of the reporting period	**-**	**-**

Finance management grant (FMG)
The main objective of this grant is to roll out financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist in building strong financial management skills.

EPWP grant
This grant is one element within a broader government strategy to reduce poverty through the alleviation and reduction of unemployment

Municipal infrastructure grant (MIG)
This grant is used for infrastructure development

Municipal systems improvement grant (MSIG)
This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.

COGTA - IDP grant
The purpose of this grant is to advance community participation in integrated development plans

COGTA - HOD grant
This is the contribution by COGTA towards salaries of acting heads of departments.

Sports and recreation grant
The objective of the grant is to maintain sports facilities and encourage participation in sporting activities in the community.

Library grant
The objective of the grant is to maintain and operate the local library for the benefit of the community.

Road safety grant
The objective is to assist scholars to cross main roads when walking to and from school.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Provisions

Bonus provision		
- Opening balance	781 886	761 250
- Expenditure	-	-
- Contributions	88 280	20 636
- Closing balance	**870 166**	**781 886**

Bonus provision
Bonuses are paid as a 13th cheque to employees that qualify. Provision for bonus is calculated based on the qualifying employees latest basic salary.

13. Long Services Awards Provision

Provision for Long-term Service		
Total Provision		
The movement in the provision are reconciled as follows:		
Long-term Service		
Balance at beginning of year	579 769	474 018
Contribution to provision	164 478	105 751
Balance at end of year	**744 247**	**579 769**
Less Current Portion	(55 241)	-
Non-current Portion	**689 006**	**579 769**

Long-service Awards
The municipality operate an unfunded defined benefit plan for all its employees. Long-service Award is payable after 10 years thereafter to employees.
The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2014 by Arch Actuarial Consulting

The principal assumptions used for the purposes of the actuarial valuation were as follows:	2014
Discount rate	8.17%
General Salary Cost inflation rate	7.24%
Nett Effective Discount Rate	0.87%
Expected Retirement Age - Females	61
Expected retirement Age - Males	61

Long Services Awards Provision

The following information regarding Long Service provision pertains to the 2014 financial year:	2014	2013
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	579 769	474 018
Current service cost	77 395	59 318
Interest cost	43 557	32 425
Benefits paid	(12 254)	(50 846)
Actuarial losses/(gains)	55 780	64 854
Fund obligation at the end of the year	744 247	579 769

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:
(1) The discount rate relative to the salary inflation assumptions;
(2) The average retirement age of employees; and
(3) Assumed rates of withdrawal of employees from service.
(4) The general salary inflation rate assumption

SENSITIVITY RESULTS

The liability at the Valuation Date was recalculated to show the effect of:
(1) A 1% increase and decrease in the assumed general salary inflation rate;
(2) A two-year decrease and increase in the assumed average retirement age of employees; and
(3) A 50% decrease in the assumed withdrawal rates from service.
(4) A 1 % increase and decrease in the discount rate;

Sensitivity Analysis on the Unfunded accrued liability

Assumption	Change	Liability	% change
Central Assumptions		0.744	
General salary inflation	1.0%	0.804	8%
	-1.0%	0.691	-7%
Discount rate	1%	0.688	-8%
	-1%	0.808	9%
Average retirement age	- 2 yr	0.678	5%
	2 yrs	0.780	5%
Withdrawal rate	-50%	0.995	34%

Sensitivity Analysis on the Current-service and Interest Cost for the year ending 30 June 2014

Assumption	Change	Current service cost	Interest cost
Central Assumptions		77 400	43 600
General salary inflation	1.0%	85 200	47 400
	-1.0%	70 500	40 100
Discount rate	1%	70 300	45 300
	-1%	85 600	41 400
Average retirement age	- 2 yr	70 500	39 600
	2 yrs	82 600	46 100
Withdrawal rate	-50%	111 700	60 400

Assumption	Total	% change
Central Assumptions	121 000	
General salary inflation	132 600	10%
	110 600	-9%
Discount rate	115 600	-4%
	12 700	5%
Average retirement age	110 100	-9%
	128 700	6%
Withdrawal rate	172 100	42%

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30 June 2015

Assumption	Change	Current service cost	Interest cost
Central Assumptions		96 500.0	58 600.0
General salary inflation	1.0%	106 500.0	63 500.0
	-1.0%	87 700.0	54 300.0
Discount rate	1%	87 400.0	60 700.0
	-1%	107 100.0	56 100.0
Average retirement age	- 2 yr	88 600.0	53 200.0
	2 yrs	102 900.0	61 500.0
Withdrawal rate	-50%	142 600.0	79 100.0

Assumption	Total	% change
Central Assumptions	155 100	
General salary inflation	170 000	10%
	142 000	-8%
Discount rate	148 100	-5%
	163 200	5%
Average retirement age	141 800	-9%
	164 400	6%
Withdrawal rate	221 700	43%

14. Other income

Sale of tender documents	17 237	36 226
Photocopies	-	3 447
LGSETA refund	10 133	-
Unallocated deposits	-	1 773 045
Other revenue	227 128	702 163
Proceeds from insurance claims	102 462	-
	356 960	**2 514 881**

15. Interest on investments

Investec and nedbank short term investment	1 941 352	1 165 862
ABSA current accounts	785 232	691 781
	2 726 584	**1 857 643**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
16. Property rates		
Rates assessed		
State	6 853 362	5 889 304
Small holdings and farms	280 558	328 501
Commercial	127 270	98 525
	7 261 190	**6 316 330**
Rates assessed cmprises of:		
Assessment rates	18 191 046	
Income foregone	(10 929 856)	
Net assessment	**7 261 190**	
Valuations		
Commercial	57 850 000	23 505 000
State	803 728 000	389 027 162
Small holdings and farms	541 850 000	193 430 000
	1 403 428 000	**605 962 162**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Different rate randage is charged for each different category of ratepayers. No additional rebated were granted to any categories of ratepayers except for the compulsory phasing in of certain rates as contained in the Council's approved Property Rating Policy.

Rates are levied on a monthly basis in twelve (12) equal instalments payable on the 7th of the subsequent month. No interest and collection charges are levied on outstanding rates accounts, as agreed with the municipality as part of the phased-in process.

17. Government grants and subsidies		
Operating grants		
Equitable share	68 921 000	64 585 000
Cogta IDP grant	200 000	-
Cogta HOD costs grant	725 032	-
EPWP grant	1 000 000	-
Finance management grant (FMG)	2 713 855	828 751
Library grant	657 000	330 000
Municipal systems improvement grant (MSIG)	1 052 787	654 005
Road safety	135 000	-
Sports and recreation grant	3 588	146 412
	75 408 263	66 544 168
Capital Grants		
Municipal Infrastructure grant (MIG)	21 785 738	21 096 959
Total Government grants and subsidies	**97 194 001**	**87 641 127**

Equitable share
The constitution provides that each sphere of government - national, provincial and local - is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it. The equitable division of revenue takes into account the functions assigned to each sphere and the capacity of each government to pay for these functions through own receipts and revenues. The equitable is an unconditional allocation.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
18. Employee related costs		
Basic remuneration	14 281 752	14 014 110
Bonus	684 223	854 236
Medical aid and pension fund contributions	1 421 578	1 737 273
Unemployment Insurance fund	69 172	106 103
Skills development levy	213 953	234 694
Travel, vehicle, accomodation and other allowances	997 509	1 518 877
Overtime	54 354	7 782
Housing allowances	50 196	117 108
Leave pay	2 365	122 936
	17 775 101	**18 713 119**
Remuneration of the Municipal Manager		
Annual Remuneration	909 372	549 120
Car Allowance	86 125	115 972
Contributions to UIF, Medical and Pension Funds	14 012	1 296
	1 009 508	666 388
Remuneration of the Chief Financial Officer		
Annual Remuneration 2013 - (2014 - acting allowance only)	485 504	448 164
Car Allowance	-	46 146
Contributions to UIF, Medical and Pension Funds	5 431	9 438
	490 935	503 748
Remuneration of the Community Services Manager		
Annual Remuneration	561 845	536 000
Car Allowance	144 000	144 000
Contributions to UIF, Medical and Pension Funds	8 068	1 545
	713 912	681 545
Remuneration of the Corporate and Human Resources Manager		
Annual Remuneration	963 801	317 684
Car Allowance	-	75 320
Contributions to UIF, Medical and Pension Funds	11 385	11 307
	975 186	404 311
Remuneration of the Technical Services Manager		
Annual Remuneration	693 546	311 667
Car Allowance	-	85 000
Contributions to UIF, Medical and Pension Funds	8 274	873
	701 820	397 540

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
19. Remuneration of Councillors		
Mayoral allowance	657 034	842 194
Deputy mayor allowance	507 636	475 662
EXCO members allowance	812 115	762 463
Ordinary Councillor allowance	3 892 442	3 588 764
Speaker allowance	310 734	328 231
	6 179 961	**5 997 314**

In-kind benefits

The Mayor and Deputy Mayor are employed on a full-time basis by the Municipality. Each is provided with an office and secretarial support at the cost of Council.

The Mayor makes use of a Council owned vehicle for official duties.

The Mayor and Deputy Mayor each have four full-time bodyguards and the Speaker has two full-time bodyguards at the cost of Council.

The Mayor and the Speaker are also provided with static security at their residence at the cost of Council.

20. Depreciation and amortization		
Property, plant and equipment	6 616 396	4 317 997
Investment property	80 344	81 565
Intangible assets	205 861	31 909
	6 902 601	**4 431 471**
21. Impairment of assets		
Buildings	-	72 573
Motor vehicles	-	151 128
Plant and equipment	-	11 568
Furniture and fixtures	-	347
Office equipment	-	65 743
	-	**301 359**
22. Finance costs		
Finance leases		82 108
Other interest paid	38 537	5 230
	38 537	**87 338**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
23. General expenditure		
Advertising	279 361	856 962
Annual report	194 630	196 000
Asset management	566 783	15 298
Auditors remuneration	2 567 670	1 842 989
Bank charges	44 934	38 590
By-Laws	18 946	-
Cleaning	120 918	432 424
Community development and training	498 170	434 072
Community projects	2 235 111	2 664 810
Conferences and seminars	231 119	7 127
Consulting and professional fees	1 577 581	1 660 620
Disaster funds	681 327	400 544
Electricity	272 994	295 766
Elections	308 000	-
Entertainment	350 026	300 368
Extended works programme - Department of works	1 337 514	
Financial assistance	101 439	341 945
Financial management grant expenditure	2 166 001	779 202
Fines and penalties	51 671	67 237
Fire arms and ammunition	-	9 104
Free basic electricity	3 467 031	2 724 806
Heritage programme	399 133	257 928
HIV/AIDS awareness	490 198	447 733
Indigent Implementation	504 544	-
Insurance	185 297	340 487
Integrated development plan	365 374	147 600
IT expenses	571 990	470 089
Job creation	-	400 000
Kwanaloga games	643 365	881 775
LED implementation	949 298	199 250
Library	1 191 811	329 567
Legal fees	224 713	-
Loose tools	1 689	-
Mayoral flagship projects	821 344	397 099
MIG PMU expenditure	202 179	178 320
Motor vehicles expenses	1 341 890	785 382
Municipal systems improvement grant expenditure	906 737	633 591
Operating leases	144 000	110 737
Operational grant expenditure	3 306 834	3 918 457
Pauper burials	176 000	288 000
Placement fees	47 271	22 235
Postage and courier	7 948	5 989
Printing and stationery	690 672	410 781
Promotion	814 135	-
Protective clothing	225 241	31 566
Public participation	3 818 531	1 340 470
SALGA and other affiliation fees	872 166	-
School support	255 740	427 022
Security	3 811 556	1 698 166
Sports and recreation grant	433 991	137 558
Study grant	61 100	196 326
Skills audit	110 000	-
Team building	98 725	-
Telephone and fax	1 395 133	1 055 345
Tourism development	432 480	180 963
Training	508 405	157 770
Travel costs	1 282 315	742 685
Valuation roll	197 109	957 969
Youth and gender development	870 554	1 043 425
	45 430 693	**31 262 149**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
24. Auditor's remuneration		
External audit fees	975 088	1 112 887
Internal audit fees	1 340 582	524 102
Audit committee fees	252 000	206 000
	2 567 670	1 842 989
25. Cash generated from operations		
Surplus for the year	26 320 281	33 990 720
Adjustments for:		
Depreciation and amortization	6 902 601	4 431 471
Gain on disposal of assets	-	(30 500)
Impairment loss	-	301 359
Increase in current provision	146 697	20 636
Increase in non-current provision	164 478	
Contribution to Bad debt provision	282 244	
Donations - in - kind	(2 370 845)	(205 262)
	31 445 456	38 508 424
Changes in working capital:		
(Increase)/Decrease in other receivables	(545 171)	(924 510)
(Increase)/Decrease in consumer debtors	(3 953 989)	(2 109 184)
Increase/(Decrease) in payables from non-exchange transactions	-	(1 963 043)
Decrease in VAT	(1 179 548)	760 127
Increase/(Decrease) in unspent grants	(1 680 969)	(7 428 612)
Increase in payables from exchange transactions	2 355 082	238 455
	26 440 861	**27 081 657**
26. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
- Property, plant and equipment	**3 813 215**	**318 002 954**

This committed expenditure relates to plant and equipment and will be financed by unspent infrastructure grants, and internally generated funds.

The following capital projects (included in the above capital commitment of R3 813 215) of wich tenders were on a stage of adjuducation, error was found by the commttee on an advertisement and

Housing projects	**Value of projec**
Ngonyameni - Lingela Projects	77 390 760
Shayamoya - Makhayo Construction & Supplies	77 805 705
Mhlungwini - Tauries Garden 500 CC	90 237 726
Mnyangweni - Setheo Engineering	58 825 000
	304 259 191

Figures in Rand	2014	2013

27. Contingencies

The following contingent liabilities were identified at year end:

Pension fund contributions

The Municipality has been in negotiations with South African Local Government Bargaining Council (SALGBC) regarding the salary and wages collective agreement reached in 2012. Clause 9.3 of this agreement deals with the pension fund contributions as from 01 July 2012. The Unions interpretation of the abovementioned clause claim, is that all employees who received employer contribution of less than 18% prior to 1 July 2012 must received employer contribution of less than 18% as from 1 July 2012. A total of 68.65% of employees in the province are to be affected by this proposal. As a result of this proposal, the Municipality is potentially liable to make retrospective contributions to the employees pension funds to the value of R830 029.96.

Pending legal case against the municipality in respect of former Municipal Manager

The former Municipal Manager's appointment was not valid and as a result, his actions whilst he performed this function were void. During this period, he employed 25 employees. Once an administrator was appointed to the municipality, the salaries of these employees were ceased as they had been employed by a person without the proper authority to do so. The employment of this former Municipal Manager and the 25 staff he employed were declared null and void by the court. These employees have as a result taken the municipality to court over the salaries which they believed they were entitled to receive. The case has been heard in the Pietermaritzburg High Court and the municipality is awaiting judgement in this case. If the Municipality is unsuccessful, it will be liable to pay the salaries of the 25 employees for the three months: April 2013 to June 2014. Based on the basic salaries of these employees prior to the termination of their employment, the possible financial exposure that the Municipality faces is approximately R3 920 114.44.

28. Fruitless and wasteful expenditure

Penalties - VAT201	-	2 990
Penalties - EMP201	51 671	64 247
Interest paid	38 537	5 230
	90 208	**72 467**

Penalties VAT201

During the year, SARS re-assessed a previous VAT201 return and discovered that they had over-refunded the municipality, as a result a penalty was levied.

Penalties EMP201

Penalties were levied by SARS due to the late submission of EMP201 returns. The reason for the late submission was due to the issues encountered by the Municipality with the SARS e-filing website.

The penalties incurred are irrecoverable. Processes have been improved to ensure that such penalties are not incurred in future.

Interest paid

Fruitless and wasteful expenditure was incurred in the form of interest paid, due to invoices for Telkom and Eskom not being settled in 30 days as required. Efforts have been made to contact the service providers in respect of late of invoices for payment, however due to the nature of the service provided, full payment had to be made.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

28.1 Irregular expenditure

Irregular expenditure related to remunerations paid to M C Mkhize, N Y Nqubunga and B D Mazibuko as well as their personal assistants and bodyguards from the period of 28 June 2013 to February 2013. During this period, they were fulfilling positions that they were appointed to in terms of a decision that was declared null and void by the High Court. As a result of the High Court's ruling, the councillors who were party to the decision that was declared null and void are being held liable for the irregular expenditure.

The amount is intended to be deducted from the councillors monthly remuneration.

Irregular expenditure - current year	-	768 680

28.2 Supply chain management deviations

Supply Chain Management Deviations	309 572	
Total Supply Chain Management Deviations	309 572	-

Refer to deviation register 2013/2014 for more detail.

29. Additional disclosure in terms of the Municipal Finance Management Act

PAYE and UIF

Current year deductions and council portion	4 680 920	4 431 963
Amount paid - current year	(4 680 920)	(4 431 963)
	-	-

Pension and Medical Aid Deductions

Current year deductions and council portion	1 882 147	3 021 214
Amount paid - current year	(1 882 147)	(3 021 214)
	-	-

Skills Development Levy (SDL)

Current year deductions and council portion	242 653	234 694
Amount paid - current year	(242 653)	(234 694)
	-	-

Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial year under review and process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer which considered them and subsequently approved the deviation from the normal supply chain management regulation. From a total expenditure of R 83 677 615, deviations were R 309 572 being approximately 0.37% of expenditure.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

30. Risk Management

Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no dependent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilization of credit receivables and the cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk:

Cash and cash equivalents	49 263 209	46 085 742
Financial assets - Investments	-	-
Consumer debtors	8 725 416	4 874 075
	57 988 625	**50 959 817**

Liquidity risk

The municipality's risks to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into amounts due within 12 months after year end:

Payables from exchange transactions	10 928 448	8 542 622
Finance lease obligation	208 889	208 889
	11 137 337	**8 751 511**

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At period ended 31 December 2013, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of financial assets - investments. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows:

	Effect on surplus for the year	
2013	1% increase	2% (decrease)
Cash and cash equivalents	458 858	(917 717)
Consumer debtors	48 741	(97 482)
	507 599	**(1 015 199)**

2014		
Financial assets - Investments	1% increase	2% (decrease)
Cash and cash equivalents	492 622	(985 244)
Consumer debtors	87 254	(174 508)
	-	-
	579 876	**(1 159 753)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

31. CORRECTION OF ERROR

The comparatives of 2012/2013 have been restated in respect of the following errors:

31.1 Consumer debtors from non-exchange transactions

Consumer debtors from non-exchange transactions as previously stated	4 874 075
- Provision for doubful debts 2011/2012	(48 048)
- Provision for doubful debts 2012/2013	(29 507)
Consumer debtors from non-exchange transactions restated 30 June 2013	**4 796 521**

31.2 Property, plant and equipment

Property, plant and equipment as previously stated	84 458 922
- Housing creditor incorrectly considered as a grant	(1 674 986)
Property, plant and equipment as restated 30 June 2013	**82 783 936**

31.3 Payables from exchange transactions

Payables from exchange transactions as previously stated	1 407 404
- Housing creditor incorrectly considered as a grant	7 165 962
- Trade payables overstated 2012/2013	(30 744)
Payables from exchange transactions restated 30 June 2013	**8 542 622**

31.4 Unspent conditional grants and receipts

Unspent conditional grants and receipts as previously stated	11 786 348
- Housing creditor incorrectly considered as a grant	(6 931 465)
Unspent conditional grants and receipts restated 30 June 2013	**4 854 883**

31.5 Non-current provision

Non-current provision as previosly stated	-
Long Service award liability as at 30 June 2012	474 018
Contribution 2012/2013	105 751
Non-current provision restated 30 June 2013	**579 769**

31.6 Surplus for the period

Surplus for the period 2013 as previously stated	36 004 717
- Housing creditor incorrectly considered as a grant (Government grants and receipts)	(1 909 484)
- Adjustments to non-current provisions (Non-current provision	(105 751)
- Trade payables overstated 2012/2013 (Repairs and maintenance)	30 744
- Provision for doubful debts 2012/2013	(29 507)
Surplus for the period 2013 restated 30 June 2013	**33 990 720**

31.7 Accumulated Surplus

Accumulated Surplus as previously stated	126 031 106
- Housing creditor incorrectly considered as a grant (Government grants and receipts)	(1 909 484)
- Adjustments to non-current provisions (Non-current provision	(105 751)
- Trade payables overstated 2012/2013 (Repairs and maintenance)	30 744
- Provision for doubful debts 2012/2013	(29 507)
- Provision for doubful debts 2011/2012	(48 048)
- Long Service award liability as at 30 June 2012	(474 018)
Accumulated Surplus restated 30 June 2013	**123 495 043**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix B
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Other receivables	2 100 000	1 601 803	**3 701 803**	3 467 492	**(234 311)**	B16
VAT receivable	-	-	**-**	1 370 009	**1 370 009**	B17
Consumer debtors	2 880 000	2 500 000	**5 380 000**	8 725 416	**3 345 416**	B18
Financial assets - Investments	30 000 000		**30 000 000**	35 167 994	**5 167 994**	B19
Cash and cash equivalents	19 200 146	(2 590 861)	**16 609 285**	14 095 215	**(2 514 070)**	B20
Non-current assets held for sale				138 000		
	54 180 146	**1 510 942**	**55 691 088**	**62 964 126**	**7 135 038**	
Non-Current Assets						
Investment property	1 467 677	-	**1 467 677**	1 556 965	**89 288**	B021
Property, plant and equipment	118 469 802	(12 924 478)	**105 545 324**	100 668 386	**(4 876 938)**	B22
Intangible assets	529 074	(350 000)	**179 074**	506 661	**327 587**	B23
Total revenue from non-exchange transactions	**120 466 553**	**(13 274 478)**	**107 192 075**	**102 732 012**	**(4 460 063)**	
Total Assets	**174 646 699**	**(11 763 536)**	**162 883 163**	**165 696 138**	**2 674 975**	
Liabilities						
Current Liabilities						
Finance lease obligation	270 000	(61 111)	**208 889**	164 033	**(44 856)**	B24
Payables from non-exchange transactions		-		-	**-**	B25
	520 000	-	**520 000**	10 928 449	**10 408 449**	B25
Payables from exchange transactions						
Unspent conditional grants and receipts		11 786 348	**11 786 348**	3 173 914	**(8 612 434)**	B26
Provisions	1 525 048	(1 525 048)	**-**	870 166	**870 166**	B27
Current portion of non-current provision			**-**	55 241	**55 241**	
	2 315 048	**10 200 189**	**12 515 237**	**15 191 803**	**2 676 566**	
Non-Current Liabilities						
Finance lease obligation	**869 649**	**(705 527)**	**164 122**	-	**(164 122)**	B26
Provisions	**2 884 810**	**(500 000)**	**2 384 810**	689 006	**(1 695 804)**	B27
Total Liabilities	**6 069 507**	**8 994 663**	**15 064 169**	**15 880 809**	**816 640**	
Net Assets	**168 577 192**	**(20 758 198)**	**147 818 994**	**149 815 330**	**1 858 335**	
Net Assets						
Net Assets Attributabke to the						
Reserves	15 000 000					
Accumulated surplus	153 577 192	(5 758 198)	**147 818 994**	149 815 330	**1 996 336**	B28
Total Net Assets	**168 577 192**	**(5 758 198)**	**147 818 994**	**149 815 330**	**1 996 336**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix B
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Other revenue	4 330 732	6 920 816	**11 251 548**	416 125	(10 835 423)	B1
Investment revenue	1 170 000	680 000	**1 850 000**	2 726 584	876 584	B2
Gains on disposal of assets	200 000	(50 000)	**150 000**	-	(150 000)	B1
Total revenue from exchange transactions	**5 700 732**	**7 550 816**	**13 251 548**	**3 142 709**	**(10 108 839)**	
Revenue from non-exchange transactions						
Property rates	7 263 264		**7 263 264**	7 261 190	**(2 074)**	B3
Government grants and subsidies	73 438 000	(188 000)	**73 250 000**	75 408 263	**2 158 263**	B4
Asset donated				2 370 845	**2 370 845**	B1
Transfer revenue					**-**	
Fines	20 000	(15 000)	**5 000**	29 700	**24 700**	B1
Total revenue from non-exchange transactions	**80 721 264**	**(203 000)**	**80 518 264**	**85 069 998**	**4 551 733**	
Total revenue	**86 421 996**	**7 347 816**	**93 769 812**	**88 212 706**	**(5 557 106)**	
Expenditure						
Personnel	27 081 838	(5 627 380)	**21 454 458**	17 775 101	**(3 679 357)**	B5
Remuneration of councillors	6 338 319	62 132	**6 400 452**	6 179 961	**(220 491)**	B6
Depreciation of amortisation	6 531 535	(270 000)	**6 261 535**	6 902 601	**641 067**	B7
Debt Impairment	200 000	2 500 000	**2 700 000**	89 021	**(2 610 979)**	B7
Finance costs	270 100	(170 000)	**100 100**	90 208	**(9 892)**	B8
Repairs and maintenance	6 361 535	650 000	**7 011 535**	6 904 543	**(106 992)**	B9
Contracted services	4 621 200	(461 200)	**4 160 000**	3 955 556	**(204 444)**	B10
General expenses	28 793 600	10 773 247	**33 950 717**	35 821 236	**1 870 519**	B11
Consultant fees	300 000	3 100 000	**3 400 000**	3 391 718	**(8 282)**	B12
Audit fees	1 478 400	737 730	**2 216 130**	2 567 670	**351 540**	B13
Total expenditure	**81 976 527**	**11 294 529**	**87 654 926**	**83 677 615**	**(3 977 311)**	
Surplus/(Deficit)	**4 445 469**	**(3 946 713)**	**6 114 886**	**4 535 092**	**(1 579 794)**	
Transfers recognised - capital	36 523 000	(15 000 000)	**21 523 000**	21 785 738	**262 738**	B15
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**40 968 469**	**(18 946 713)**	**27 637 886**	**26 320 830**	**(1 317 056)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix B
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Ratepayers and other	13 041 479	2 218 286	**15 259 765**	5 578 695	**(9 681 070)**	
Government grant - operating	73 438 000	(188 000)	**73 250 000**	75 408 263	**2 158 263**	
Government grant - capital transfer	21 523 000	-	**21 523 000**	21 785 738	**262 738**	
Interest income	1 170 000	680 000	**1 850 000**	2 726 584	**876 584**	
	109 172 479	**2 710 286**	**111 882 765**	**105 499 280**	**(6 383 486)**	
Payments						
Suppliers and employees	(71 475 127)	(15 367 000)	**(86 842 127)**	(75 501 179)	**11 340 948**	
Finance charges	(270 000)	170 000	**(100 000)**	(90 208)	**9 792**	
Transfers and Grants	(3 500 000)	-	**(3 500 000)**	(3 467 031)	**32 969**	
				(79 058 418)		
	(75 245 127)	**(15 197 000)**	**(90 442 127)**	**(79 058 418)**	**11 383 709**	
Net cash flows from operating activities	**33 927 352**	**(12 486 714)**	**21 440 638**	**26 440 862**	**5 000 224**	B29
Cash flows from investing activities						
Purchase of property, plant and equipment	(39 442 599)	13 584 000	**(25 858 599)**	(22 474 849)	**3 383 750**	
Proceeds from sale of property, plant and equipment	200 000	(50 000)	**150 000**		**(150 000)**	
Purchase of intangible assets	-	-	**-**	(579 567)	**(579 567)**	
(Increase)/decrease in investments	-		**-**		**-**	
Net cash flows from investing activities	**(39 242 599)**	**13 534 000**	**(25 708 599)**	**(23 054 416)**	**2 654 183**	B30
Cash flows from financing activities						
Decrease in finance lease obligation	**(270 000)**	**61 111**	**(208 889)**	(208 977)	**(88)**	B31
Net (Decrease)/increase in cash and cash equivalents	(5 585 248)	1 108 397	**(4 476 850)**	3 177 468	**7 654 319**	
Cash and cash equivalents at the beginning of the year	9 785 394	36 300 742	**46 086 136**	46 085 742	**-**	
Cash and cash equivalents at the end	**4 200 146**	**37 409 139**	**41 609 285**	**49 263 210**	**7 654 319**	